

TOWNSHIP OF ADAMS
HILLSDALE COUNTY, MICHIGAN

AUDIT REPORT

MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF ADAMS	County HILLSDALE
Fiscal Year End 3-31-06	Opinion Date 8-11-06	Date Audit Report Submitted to State 8-21-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

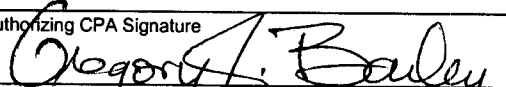
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI
Zip 49250			
Authorizing CPA Signature 	Printed Name GREGORY J BAILEY	License Number 1101022915	

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Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

PHONE: (517) 849-2410

FAX: (517) 849-2493

E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

INDEPENDENT AUDITOR'S REPORT

To the Supervisor and
Members of the Township Board
Township of Adams
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Adams as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Adams as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and pages 18 through 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Township of Adams

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Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Adams' basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bailey-Hodshire & Company, P.C.

August 11, 2006

Jonesville, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF ADAMS

This section of Adams Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements which follow this section.

Financial Highlights

- The Township's total combined net assets decreased by \$5,250 between April 1, 2005 and March 31, 2006.
- The general fund reported a fund balance this year of \$386,258, which is an increase of \$4,978 from the prior year fund balance.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps explain the condition of the Township. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows the net assets of the Township as of the end of the year:

TABLE 1 - NET ASSETS

	2006	2005
Assets:		
Current Assets	\$ 446,544	\$ 449,765
Capital Assets (net of depreciation)	<u>44,983</u>	<u>45,408</u>
Total Assets	<u>\$ 491,527</u>	<u>\$ 495,173</u>
Liabilities:		
Current Liabilities	\$ 69	\$ 600
Long-term Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 69</u>	<u>\$ 600</u>
Net Assets:		
Invested in Capital Assets, net of related debt	\$ 44,983	\$ 45,408
Restricted	0	0
Unrestricted	<u>446,475</u>	<u>449,165</u>
Total Net Assets	<u><u>\$ 491,458</u></u>	<u><u>\$ 494,573</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF ADAMS

The following table shows the changes in the net assets during the year:

TABLE 2 - CHANGE IN NET ASSETS

	<u>2006</u>	<u>2005</u>
Program Revenue:		
Charges for services	\$ 73,780	\$ 80,962
Operating grants and contributions	800	800
General Revenue:		
Property tax	50,132	46,909
State shared revenue	133,996	132,200
Unrestricted investment earnings	6,473	4,943
Other	<u>17,821</u>	<u>16,225</u>
Total Revenue	<u>\$ 283,002</u>	<u>\$ 282,039</u>
Expenses:		
General Government	\$ 111,026	\$ 107,601
Public Safety	25,000	23,250
Public Works	141,226	105,649
Culture & Recreation	<u>11,000</u>	<u>10,850</u>
Total Expenses	<u>\$ 288,252</u>	<u>\$ 247,350</u>
INCREASE IN NET ASSETS	<u>\$ (5,250)</u>	<u>\$ 34,689</u>

The Township's net assets continue to remain healthy.

Governmental Activities

Total revenues for the year were increased slightly. Expenses were increased because of additional spending on a road seal coat project that was over estimate. The general fund was adjusted accordingly. In the Northlawn Cemetery Fund, the budget was adjusted to reflect a tree trimming project and the addition of gravel to all drives at the Cemetery. During the year, the Township Board continued to monitor the revenues and expenditures.

The Township's Funds

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds include the General Fund, the Northlawn Cemetery Fund, the Inland Lake Improvement Fund, and the Recreation Fund.

The General Fund pays for most of the Township's governmental services. The most significant are road work, road stabilization (dust control on all dirt roads) and fire protection; these areas incurred expenses of \$121,107 in 2006 and \$73,819 in 2005. The fire protection is partially supported by the reimbursement of fire calls by the residents and their insurance companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF ADAMS

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budgets to take into account events during the year. The most significant was an increase in expenditures for a road project. This was a result of a seal coat project that was over estimate.

Capital Asset and Debt Administration

The Township made no further investment in capital assets during the year. There was a continued investment in the roads within the Township. The road work is done with the cooperation of the Hillsdale County Road Commission which performs (or contracts) the work and shares the costs. This infrastructure is not reported on the Township's financial statements because the roads are not the property of the Township. Details of the Township's capital assets are continued in the notes to the financial statements on page 16.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2006-2007 has increased the road work by \$20,000 to \$95,500, a large portion of the general fund. The Township Board continues to have a space problem at the town hall and has explored several options during the past year. The Board will continue to explore options to find a new town hall. The Inland Lake Board continues to work on the dredging project at Lake BelAir.

Contacting the Township's Management

This Financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF ADAMS
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

Cash & investments	\$ 332,862
Taxes receivable	97,007
Accounts receivable	16,675
Capital assets - net	<u>44,983</u>
Total assets	<u>\$ 491,527</u>

LIABILITIES

Accounts payable	<u>\$ 69</u>
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NET ASSETS

Investment in capital assets, net of related debt	\$ 44,983
Unrestricted	<u>446,475</u>
Total net assets	<u>\$ 491,458</u>
Total liabilities and net assets	<u>\$ 491,527</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government	\$ 111,026	\$ 27,230	\$ 800	\$ 0	\$ (82,996)
Public Safety	25,000	4,050	0	0	(20,950)
Public Works	141,226	32,000	0	0	(109,226)
Culture & Recreation	<u>11,000</u>	<u>10,500</u>	<u>0</u>	<u>0</u>	<u>(500)</u>
Total	<u>\$ 288,252</u>	<u>\$ 73,780</u>	<u>\$ 800</u>	<u>\$ 0</u>	<u>\$(213,672)</u>

General Revenues:

Property tax, levied for general purposes	\$ 50,132
State shared revenue	133,996
Unrestricted investment earnings	6,473
Other	<u>17,821</u>

Total General Revenues \$ 208,422

Change in Net Assets \$ (5,250)

Net Assets - Beginning (restated, see Note 11) 496,708

Net Assets - Ending \$ 491,458

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	General Fund	Northlawn Cemetery Fund	Inland Lake Improvement Fund	Recreation Fund	Total Governmental Funds
ASSETS					
Cash & investments	\$ 211,092	\$ 30,079	\$ 29,354	\$ 62,337	\$ 332,862
Taxes receivable	5,419	0	574	0	5,993
Accounts receivable	12,804	0	0	3,871	16,675
Due from other funds	65,998	0	0	0	65,998
Due from agency fund	<u>91,014</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>91,014</u>
Total assets	<u>\$ 386,327</u>	<u>\$ 30,079</u>	<u>\$ 29,928</u>	<u>\$ 66,208</u>	<u>\$ 512,542</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 69	\$ 0	\$ 0	\$ 0	\$ 69
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,998</u>	<u>65,998</u>
Total liabilities	<u>\$ 69</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,998</u>	<u>\$ 66,067</u>
Fund Equity:					
Fund Balance					
Reserved	\$ 0	\$ 0	\$ 0	\$ 210	\$ 210
Unreserved/Undesignated	<u>386,258</u>	<u>30,079</u>	<u>29,928</u>	<u>0</u>	<u>446,265</u>
Total fund equity	<u>\$ 386,258</u>	<u>\$ 30,079</u>	<u>\$ 29,928</u>	<u>\$ 210</u>	<u>\$ 446,475</u>
Total liabilities and fund equity	<u>\$ 386,327</u>	<u>\$ 30,079</u>	<u>\$ 29,928</u>	<u>\$ 66,208</u>	<u>\$ 512,542</u>

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to the Net Assets of Governmental Activities on the Statement of Net Assets

Fund Balances - total governmental funds	\$ 446,475
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	69,006
Deduct: Accumulated depreciation	<u>(24,023)</u>
Net assets of governmental activities	<u>\$ 491,458</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	General Fund	Northlawn Cemetery Fund	Inland Lake Improvement Fund	Recreation Fund	Total Governmental Funds
REVENUE					
Property taxes	\$ 50,132	\$ 0	\$ 32,000	\$ 0	\$ 82,132
Administration fees	13,154	0	0	0	13,154
State shared revenue	133,996	0	0	0	133,996
Charges for services	4,250	13,876	0	0	18,126
Rent - Township Hall	10,500	0	0	0	10,500
Licenses, permits, franchise fees	3,841	0	0	0	3,841
Interest income	5,999	187	82	205	6,473
Miscellaneous	<u>12,480</u>	<u>800</u>	<u>1,500</u>	<u>0</u>	<u>14,780</u>
Total revenue	<u>\$ 234,352</u>	<u>\$ 14,863</u>	<u>\$ 33,582</u>	<u>\$ 205</u>	<u>\$ 283,002</u>
EXPENDITURES					
General Government	\$ 86,470	\$ 21,996	\$ 0	\$ 0	\$ 108,466
Public Safety	25,000	0	0	0	25,000
Public Works	102,054	0	39,172	0	141,226
Recreation and Culture	<u>10,850</u>	<u>0</u>	<u>0</u>	<u>150</u>	<u>11,000</u>
Total expenditures	<u>\$ 224,374</u>	<u>\$ 21,996</u>	<u>\$ 39,172</u>	<u>\$ 150</u>	<u>\$ 285,692</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 9,978</u>	<u>\$ (7,133)</u>	<u>\$ (5,590)</u>	<u>\$ 55</u>	<u>\$ (2,690)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 0	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Operating transfers out	<u>(5,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Total other financing sources (uses)	<u>\$ (5,000)</u>	<u>\$ 5,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGES IN FUND BALANCES	<u>\$ 4,978</u>	<u>\$ (2,133)</u>	<u>\$ (5,590)</u>	<u>\$ 55</u>	<u>\$ (2,690)</u>
FUND BALANCES - April 1, 2005	<u>381,280</u>	<u>32,212</u>	<u>35,518</u>	<u>155</u>	<u>449,165</u>
FUND BALANCES - March 31, 2006	<u>\$ 386,258</u>	<u>\$ 30,079</u>	<u>\$ 29,928</u>	<u>\$ 210</u>	<u>\$ 446,475</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds \$ (2,690)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay

0

Deduct: depreciation expense

(2,560)

Change in net assets of governmental activities

\$ (5,250)

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
MARCH 31, 2006

ASSETS

Cash

\$ 91,014

LIABILITIES

Due to Township General Fund

\$ 91,014

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Adams is located in Hillsdale County, Michigan, and comprises a population of approximately 1,984 residents. It is governed by a board consisting of 5 members with a supervisor as its head.

The following is a summary of significant accounting policies used by the Township of Adams:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Township consists of all funds, departments, boards and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt, or the levying of taxes. The Township has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, state shared revenue, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Under the modified accrual basis, property taxes, state shared revenue, interest, and grants are considered to be both measurable and available at fiscal year-end. All other revenue items are considered to be available only when cash is received by the Township.

Financial Statement Presentation

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Township reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Northlawn Cemetery Fund - established as a special revenue fund to account for the revenue and expenditures associated with the operation and maintenance of Northlawn Cemetery.

Inland Lake Improvement Fund - established as a special revenue fund to account for the revenue and expenditures associated with weed control at Lake Bel Air.

Recreation Fund - established as a capital projects fund to account for the revenue and expenditures associated with the construction of a recreation project in conjunction with surrounding municipalities.

Additionally, the Township reports the following fund type:

Fiduciary Fund/Trust and Agency Fund

Tax Collection Fund - used to account for property taxes collected from residents on behalf of the Township along with other governmental units in the county. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and investments are reported at cost.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Township maintains a capitalization threshold of \$1,000. The Township does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	50 years
Furniture & Fixtures	20 years
Cemetery Equipment	15 years
Technology	5 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Township Board at the line-item level. Any budgetary modifications may only be made by resolution of the Township Board. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to March 31, the Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during March to obtain taxpayer comments.
- 3) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Northlawn Cemetery	Snow removal	500	600	100
Northlawn Cemetery	Tractor repair	200	1,050	850

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of March 31, 2006, the Township's deposits are in accordance with statutory authority.

Deposits

Following are the components of the Township's bank deposits at March 31, 2006:

Checking Accounts	\$ 823
Savings Accounts	243,954
Certificates of Deposit	<u>88,085</u>
Total	<u>\$ 332,862</u>

Custodial credit risk of deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At March 31, 2006, the carrying amount of the Township's deposits was \$332,862 and the bank balance was \$334,578. Of the bank balance, \$218,063 was covered by federal depository insurance and \$116,515 was uninsured. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

There were no investments held during the year.

NOTE 4 - RECEIVABLES

Receivables at March 31, 2006, consist of property taxes, special assessments, and fire run charges, and are considered collectible in full.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 17,000	\$ 0	\$ 0	\$ 17,000
Capital assets being depreciated				
Buildings & Improvements	\$ 24,802	\$ 0	\$ 0	\$ 24,802
Furniture & Equipment	27,204	0	0	27,204
Subtotal	\$ 52,006	\$ 0	\$ 0	\$ 52,006
Less accumulated depreciation for				
Buildings & Improvements	\$ (17,463)	\$ (600)	\$ 0	\$ (18,063)
Furniture & Equipment	(4,000)*	(1,960)	0	(5,960)
Subtotal	\$ (21,463)	\$ (2,560)	\$ 0	\$ (24,023)
Total capital assets being depreciated, net	\$ 30,543	\$ (2,560)	\$ 0	\$ 27,983
Total capital assets, net	\$ 47,543	\$ (2,560)	\$ 0	\$ 44,983

Depreciation expense was charged to functions/programs of the Township as follows:

General Government	\$ 2,560
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*Restated, see Note 11

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at March 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 91,014	Tax Collection Fund	\$ 91,014
General Fund	65,998	Recreation Fund	65,998
	\$ 157,012		\$ 157,012

Interfund transfers during the year consisted of the following:

Transfers from Tax Collection Fund to General Fund	\$ 90,570
Transfer from General Fund to Northlawn Cemetery Fund	5,000

The amount due to General Fund from the Tax Collection Fund represents Township property taxes that have been collected but not yet transferred to General Fund. The amount due to General Fund from the Recreation Fund represents advances to the Recreation Fund for completion of the recreation area project, to be repaid by contributions from the other participating municipalities.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 7 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in an amount equal to the total taxes levied. There are no provisions made for possible uncollectible taxes. The total levy for 2005 was .9433 mills for general operations on a total state taxable valuation of approximately \$53,558,000. The Township properties are assessed as of December 31 (the lien date), taxes levied December 1 of the succeeding year and due without interest to March 1. After March 1, the delinquent taxes real portion are turned over to the County Treasurer for collection. The personal properties continue to be collectible by the Township Treasurer.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 9 - UNEMPLOYMENT TAXES

The Township is a reimbursing employer to the Michigan Unemployment Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE 10 - COMMITMENTS

At its March, 2006 meeting, the Township Board approved various contracts with the Hillsdale County Road Commission totaling \$96,800 (Township share) for road projects to be completed in the 2006-07 fiscal year.

NOTE 11 - RESTATEMENTS

Depreciation expense on equipment was overstated in the prior year financial statements by \$2,135. The beginning balances for accumulated depreciation and net assets have been restated by this amount.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF ADAMS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 341,706	\$ 341,706	\$ 381,280	\$ 39,574
Resources (inflows)				
Property taxes	40,800	40,800	50,132	9,332
Administration fees	10,000	10,000	13,154	3,154
State shared revenue	132,200	132,200	133,996	1,796
Charges for services	6,475	6,475	4,250	(2,225)
Rent - Township Hall	10,500	10,500	10,500	0
Licenses, permits, franchise fees	2,630	2,630	3,841	1,211
Interest income	2,000	2,000	5,999	3,999
Miscellaneous	<u>4,200</u>	<u>4,200</u>	<u>12,480</u>	<u>8,280</u>
Amounts available for appropriation	<u>\$ 550,511</u>	<u>\$ 550,511</u>	<u>\$ 615,632</u>	<u>\$ 65,121</u>
Charges to appropriations (outflows)				
General Government				
Township Board				
Salaries	2,680	2,680	2,680	0
Dues and subscriptions	1,500	1,500	1,336	(164)
Mileage	500	500	498	(2)
Long distance phone	200	200	0	(200)
Conferences	1,600	1,800	1,797	(3)
Office equipment	2,900	2,900	0	(2,900)
Computer software	3,000	3,000	2,647	(353)
Attorney	2,000	2,000	180	(1,820)
Communications	700	1,100	1,061	(39)
Payroll tax	3,500	3,500	2,807	(693)
Printing and publishing	1,000	1,000	457	(543)
Insurance and bonds	13,000	13,000	12,046	(954)
Miscellaneous	1,000	1,000	303	(697)
Supervisor				
Salary	5,259	5,259	5,259	0
Supplies	250	250	0	(250)
Zoning Administrator	1,628	1,628	1,627	(1)
Clerk				
Salary	13,452	13,452	13,452	0
Deputy	250	250	0	(250)
Supplies	2,000	2,000	1,064	(936)
Audit	2,000	2,350	2,350	0

TOWNSHIP OF ADAMS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
Board of Review	1,000	1,000	659	(341)
Treasurer				
Salary	11,974	11,974	11,974	0
Deputy	250	250	53	(197)
Dog license fees	200	200	128	(72)
Site tax	1,500	1,500	570	(930)
Supplies	3,000	3,000	2,140	(860)
Printing	4,000	4,000	2,582	(1,418)
Assessor				
Contract services	9,500	9,500	9,500	0
Supplies	2,000	2,000	1,093	(907)
Elections	2,000	2,000	776	(1,224)
Building and grounds				
Utilities	800	800	465	(335)
Repairs	5,000	5,000	660	(4,340)
Cemetery				
Clerical salary	1,696	1,696	1,696	0
Maintenance	5,000	5,000	3,300	(1,700)
Planning Commission/Board of Appeals	8,000	8,000	1,310	(6,690)
Public Safety				
Fire contracts	30,000	30,000	25,000	(5,000)
Public Works				
Roads	75,000	78,400	78,352	(48)
Road chloride	15,000	17,800	17,755	(45)
Street lights	500	500	315	(185)
Drains	4,000	4,000	1,356	(2,644)
Transfer station	6,000	6,000	4,276	(1,724)
Culture and Recreation				
Library	10,850	10,850	10,850	0
Transfers to other funds	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Total charges to appropriations	<u>\$ 260,689</u>	<u>\$ 267,839</u>	<u>\$ 229,374</u>	<u>\$ (38,465)</u>
End of year fund balance	<u>\$ 289,822</u>	<u>\$ 282,672</u>	<u>\$ 386,258</u>	<u>\$ 103,586</u>

TOWNSHIP OF ADAMS
BUDGETARY COMPARISON SCHEDULE
NORTHLAWN CEMETERY FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 32,092	\$ 32,092	\$ 32,212	\$ 120
Resources (inflows)				
Charges for services	11,000	11,000	13,876	2,876
Interest income	300	300	187	(113)
Miscellaneous	900	900	800	(100)
Transfers from other funds	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Amounts available for appropriation	<u>\$ 49,292</u>	<u>\$ 49,292</u>	<u>\$ 52,075</u>	<u>\$ 2,783</u>
Charges to appropriations (outflows)				
General Government				
Cemetery				
Burials	\$ 5,000	\$ 5,000	\$ 4,200	\$ (800)
Foundations	7,000	7,000	1,944	(5,056)
Mowing	10,992	10,992	10,992	0
Electricity	130	130	87	(43)
Flags	600	600	292	(308)
Snow removal	500	500	600	100
Tree trimming	1,000	1,750	1,250	(500)
Tractor repair	100	200	1,050	850
Grass seed & gravel	700	1,900	1,244	(656)
Miscellaneous	<u>23,270</u>	<u>21,220</u>	<u>337</u>	<u>(20,883)</u>
Total charges to appropriations	<u>\$ 49,292</u>	<u>\$ 49,292</u>	<u>\$ 21,996</u>	<u>\$ (27,296)</u>
End of year fund balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,079</u>	<u>\$ 30,079</u>

TOWNSHIP OF ADAMS
BUDGETARY COMPARISON SCHEDULE
INLAND LAKE IMPROVEMENT FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 51,688	\$ 51,688	\$ 35,518	\$ (16,170)
Resources (inflows)				
Property taxes	32,000	32,000	32,000	0
Interest income	300	300	82	(218)
Miscellaneous	<u>0</u>	<u>0</u>	<u>1,500</u>	<u>1,500</u>
Amounts available for appropriation	<u>\$ 83,988</u>	<u>\$ 83,988</u>	<u>\$ 69,100</u>	<u>\$ (14,888)</u>
Charges to appropriations (outflows)				
Public Works				
Weed control	\$ 32,000	\$ 32,000	\$ 27,000	\$ (5,000)
Engineering fees	13,000	13,000	11,335	(1,665)
Permits	800	800	800	0
Advertising	300	300	0	(300)
Supplies	<u>0</u>	<u>50</u>	<u>37</u>	<u>(13)</u>
Total charges to appropriations	<u>\$ 46,100</u>	<u>\$ 46,150</u>	<u>\$ 39,172</u>	<u>\$ (6,978)</u>
End of year fund balance	<u>\$ 37,888</u>	<u>\$ 37,838</u>	<u>\$ 29,928</u>	<u>\$ (7,910)</u>

TOWNSHIP OF ADAMS
BUDGETARY COMPARISON SCHEDULE
RECREATION FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
Beginning of year fund balance	\$ 155	\$ 155	\$ 155	\$ 0
Resources (inflows)				
Interest income	100	100	205	105
Contributions from other governments	<u>15,820</u>	<u>15,820</u>	<u>0</u>	<u>(15,820)</u>
Amounts available for appropriation	\$ 16,075	\$ 16,075	\$ 360	\$ (15,715)
Charges to appropriations (outflows)	<u>16,075</u>	<u>16,075</u>	<u>150</u>	<u>(15,925)</u>
End of year fund balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 210</u>	<u>\$ 210</u>

TOWNSHIP OF ADAMS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
MARCH 31, 2006

NOTE 1 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Northlawn Cemetery	Snow removal	500	600	100
Northlawn Cemetery	Tractor repair	200	1,050	850

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF ADAMS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2006

	Balance <u>April 1, 2005</u>	Additions	Deductions	Balance <u>March 31, 2006</u>
ASSETS				
Cash	\$ 78,502	\$ 1,265,911	\$ 1,253,399	\$ 91,014
LIABILITIES				
Due to Other Funds	\$ 78,108	\$ 106,320	\$ 93,414	\$ 91,014
Due to County	50	640,959	641,009	0
Due to Schools	54	518,261	518,315	0
Due to State of Michigan	<u>290</u>	<u>371</u>	<u>661</u>	<u>0</u>
	\$ 78,502	\$ 1,265,911	\$ 1,253,399	\$ 91,014

The accompanying notes are an integral part of this statement.

**Bailey, Hodshire
& Company, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET
P.O. BOX 215
JONESVILLE, MI 49250

PHONE: (517) 849-2410
FAX: (517) 849-2493
E-MAIL: BAILEYHODSHIRE@SBCGLOBALNET

August 11, 2006

To the Supervisor and
Members of the Township Board
Township of Adams

In connection with our audit of the Township of Adams for the year ended March 31, 2006, we would like to make the following comments and recommendations:

1. There are several outstanding balances for fire service calls that have remained unpaid for several years. We recommend that these balances either be pursued aggressively for collection or else written off as uncollectible.

If we can be of assistance regarding these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company, P.C.
Bailey, Hodshire & Company, P.C.